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PERCEPTIONS OF HOTEL MANAGERS ON THE ADOPTION OF ACTIVITY-BASED COSTING IN GUJARAT

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ABSTRACT

In today's highly competitive market, there is a shift from standardization to customization, with a strong emphasis on price and quality. Traditional costing methods have become outdated as they often allocate expenses inaccurately, particularly overhead costs. In order to determine fair and accurate pricing, the activity-based costing system has emerged as an innovative solution. Activity-based costing primarily focuses on activities and cost drivers, making it essential to define these activities. The main objective of activity-based costing is to provide a more precise understanding of hotel service costs. By charging prices that closely align with their actual production costs, both effectiveness and profit margins can be improved. Activity-based costing plays a crucial role in the hospitality industry as it reveals the true profitability of customers, identifies opportunities for cost reduction and increased efficiency in various hospitality services, and provides actionable insights to negotiate price and cost reductions for different activities. Utilizing activity-based pricing to determine hotel service prices has been argued to be the most accurate approach. For this research, the study focused on 75 hotel managers working in Gujarat and sought their perspectives on activity-based costing.

Keywords : Activity Based Costing, Hotel Industry, Costing, Pricing

INTRODUCTION

Activity-based costing (ABC) is a management accounting technique that allocates costs based on the activities that drive those costs. In the hospitality industry, which includes hotels, restaurants, and other accommodation establishments, cost management plays a crucial role in maintaining profitability and providing quality services. Traditional costing methods often fail to accurately capture the true costs associated with providing various services in hotels. ABC offers a more precise and granular approach to cost allocation, allowing managers to understand the true costs of each activity and make informed decisions regarding pricing, resource allocation, and process improvement.

Activity-based costing is a cost allocation method that assigns costs to specific activities based on their consumption of resources. It involves identifying various activities within an organization, determining cost drivers that cause the incurrence of costs, and allocating those costs to products, services, or other cost objects. ABC takes into account the complexity of business operations and recognizes that different activities consume resources to varying degrees. By linking costs to specific activities, ABC provides a more accurate representation of the cost structure and enables better cost management decisions. Activity-Based Costing (ABC) is a management accounting methodology that aims to allocate costs to specific activities based on their consumption of resources. It provides a more accurate and detailed approach to cost allocation compared to traditional costing methods. ABC involves identifying and analyzing various activities within an organization and determining the cost drivers that influence the incurrence of costs.

The principles of ABC revolve around understanding that resources are consumed by activities, and activities, in turn, drive costs. The key steps in implementing ABC include:

1. **Identifying activities:** This involves identifying and categorizing the activities performed within the organization. These activities can be directly or indirectly related to the production of goods or the provision of services.
2. **Assigning resource costs:** ABC focuses on identifying the resources (such as labor, materials, and overheads) consumed by each activity. The costs associated with these resources are then allocated to the respective activities.
3. **Determining cost drivers:** Cost drivers are the factors that influence the consumption of resources by activities. By identifying cost drivers, ABC helps establish the relationship between activities and costs more accurately.
4. **Allocating costs to cost objects:** Once the costs are assigned to activities, they are further allocated to specific cost objects such as products, services, or customer segments. This step helps determine the true cost of producing each cost object.

BENEFITS AND LIMITATIONS OF ABC IN COST MANAGEMENT

1. **Accurate cost allocation:** ABC provides a more precise understanding of the costs associated with each activity. This enables managers to make more informed decisions regarding pricing, product profitability, and resource allocation.
2. **Cost control and optimization:** By identifying activities that drive costs, ABC helps in controlling and reducing costs. It highlights non-value-added activities or those with excessive resource consumption, allowing for process improvement and cost optimization.
3. **Enhanced decision-making:** With better cost information, managers can make more accurate decisions related to product mix, pricing strategies, outsourcing decisions, and resource allocation. This leads to improved profitability and resource utilization.

Despite its advantages, ABC also has some limitations:

1. **Implementation complexity:** Implementing ABC can be resource-intensive and time-consuming. It requires a thorough understanding of the organization's processes and activities, as well as data collection and analysis.
2. **Cost of implementation:** The costs associated with implementing ABC, including training, software, and data collection, can be significant, especially for smaller organizations.
3. **Data accuracy and reliability:** ABC heavily relies on accurate and reliable data to ensure the precision of cost allocations. Obtaining and maintaining such data can be challenging, particularly in organizations with complex operations.

RELEVANCE OF ABC IN THE HOSPITALITY INDUSTRY

In the hospitality industry, where a wide range of services are offered, ABC is particularly relevant for cost management. The diverse activities within hotels, such as room service, housekeeping, food and beverage operations, and facility maintenance, have different cost structures and resource requirements. ABC provides insights into the true costs of these activities, enabling hotel managers to make more informed decisions. It helps identify the profitability of different services, optimize menu offerings, determine accurate pricing, evaluate the cost-effectiveness of various facilities, and allocate resources efficiently. Moreover, the hospitality industry is highly competitive, and effective cost management is crucial for maintaining profitability and delivering high-quality services. ABC allows hotel managers to better understand their cost structures, identify cost-saving opportunities, and improve operational efficiency, ultimately contributing to the success and sustainability of their businesses.

LITERATURE REVIEW

Chan, Y. L., & Ho, S. S. (2014). This study conducted an empirical investigation into the adoption of activity-based costing (ABC) in the hotel industry in Hong Kong. Through surveys and interviews with hotel managers, the study examined the reasons for adopting ABC, the challenges faced during implementation, and the perceived benefits of ABC in terms of cost management. The findings provided insights into the factors influencing the adoption of ABC in the hotel industry, contributing to a better understanding of its implications for financial decision-making.

Kukreja, P., Chatterjee, B., & Goel, R. (2015). This research paper explored the application of activity-based costing (ABC) as an innovative tool for cost management in the hotel industry. Through a case study approach, the study highlighted the advantages of using ABC in accurately determining costs, improving resource allocation, and enhancing profitability. The findings emphasized the relevance of ABC in addressing the unique cost structures and complexities of the hotel industry, offering valuable insights for hotel managers seeking to enhance their cost management practices.

Lin, S. (2013). This case study from China examined the application of activity-based costing (ABC) in the hospitality industry. By analyzing a selected hotel's cost structure, the study demonstrated how ABC provided a more accurate allocation of costs to specific activities and products, leading to better cost control and decision-making. The research shed light on the implementation challenges and benefits of ABC in the context of the Chinese hospitality industry, offering practical insights for hotel managers considering the adoption of this cost management approach.

Makkar, M., & Sharma, V. (2017). This case study focused on the implementation of activity-based costing (ABC) in the hotel industry. Through a detailed analysis of cost drivers and activity costs in a specific hotel, the study demonstrated how ABC improved cost accuracy and provided a more comprehensive understanding of cost behavior. The findings highlighted the potential of ABC in enhancing cost management practices and decision-making in the hotel industry, contributing to the overall financial performance of hotels.

Nusantara, T., & Abadi, A. (2020). This literature review examined the implementation of activity-based costing (ABC) in the hospitality industry. By reviewing relevant studies, the paper explored the challenges, benefits, and success factors associated with implementing ABC in hotels and resorts. The review identified various approaches and best practices in implementing ABC and highlighted the potential of ABC in improving cost control, performance measurement, and strategic decision-making in the hospitality industry.

IMPORTANCE OF UNDERSTANDING HOTEL MANAGERS' PERCEPTIONS OF ABC ADOPTION IN GUJARAT

The adoption of ABC in the hospitality industry, specifically in hotels, has the potential to improve cost management practices and enhance financial performance. However, the successful implementation of ABC depends on the acceptance and support of hotel managers who play a vital role in decision-making processes. Therefore, it is important to understand the perceptions of hotel managers regarding the adoption of ABC in Gujarat, a state known for its vibrant tourism and hospitality sector. Exploring their perceptions can provide insights into the potential challenges, benefits, and opportunities associated with ABC implementation in the region.

RESEARCH OBJECTIVE

1. The purpose of this project is to learn about the ABC system.
2. To investigate hotel management's attitudes of hotel management and staff toward the ABC system.

SAMPLE SIZE

In this study, the researcher focused on 75 managers in the Gujarat hotel business.

DATA ANALYSIS TECHNIQUE

Chi-square techniques were used to analyse the primary data collected.

DATA ANALYSIS

1.

H_01 : Respondents do not believe that the existing cost system did not offer management with valuable information.

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Do you believe, existing cost system did not provide useful information to management	-10.277	74	.000	-1.120	-1.34	-.90

INTERPRETATION

The significance value is 0.000, which is less than the usual value of 0.05, as stated in the table above. As a result, the null hypothesis is rejected, and respondents believe that the existing system did not give useful information to management.

2.

H₀₂ : After applying Activity-based costing, respondents' age has no significant impact on their sense of enhanced cost control information.

Crosstab

Count		The adoption of GST over indirect taxes changes business processes and operations				Total
		Strongly Agree	Agree	Neutral	Strongly Disagree	
AGE	18-25 Years	3	3	0	0	6
	26-50 Years	25	27	2	2	56
	51-65 Years	6	2	2	0	10
	More than 65 Years	2	0	1	0	3
Total		36	32	5	2	75

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	11.368 ^a	9	.251
Likelihood Ratio	11.418	9	.248
Linear-by-Linear Association	.006	1	.938
N of Valid Cases	75		

INTERPRETATION

$\chi^2 = 11.368$, as shown in the Pearson Chi-Square statistic table above. The null hypothesis is accepted since the p value is greater than 0.05. As a result, there is no correlation between respondents' age and their sense of improved cost control information following the implementation of Activity-based costing.

3.

H₀₃ : The current cost method, according to respondents, does not assist in cost reduction.

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
current cost system help in reducing costs	-3.954	74	.000	-.587	-.88	-.29

INTERPRETATION

The significance value is 0.000, which is less than the conventional value of 0.05, as shown in the preceding table. As a result, the null hypothesis is rejected, and respondents believe that the current cost system aids in cost reduction.

4.

H04 : After implementing Activity-based costing, respondents' experience and perceptions of enhanced cost control information had no meaningful impact.

Crosstab

Count

		The adoption of GST over indirect taxes changes business processes and operations				Total
		Strongly Agree	Agree	Neutral	Strongly Disagree	
WORK EXPERIENCE	Less than 3 Years	4	5	2	0	11
	3 to 5 Years	13	12	1	1	27
	6 to 10 Years	6	8	1	0	15
	More than 10 Years	13	7	1	1	22
Total		36	32	5	2	75

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	5.906 ^a	9	.749
Likelihood Ratio	5.947	9	.745
Linear-by-Linear Association	.438	1	.508
N of Valid Cases	75		

INTERPRETATION

$\chi^2 = 5.906$. This may be seen in the Pearson Chi-Square statistic table above. The null hypothesis is accepted since the p value is greater than 0.05. As a result, respondents' experience and perceptions of enhanced cost control information after applying Activity-based costing had no meaningful impact.

CONCLUSION

In today's dynamic business landscape, companies must continuously innovate and develop a diverse range of goods, food products, services, and processes to remain competitive in the global market. However, managing the costs associated with these diverse offerings can be challenging. Traditional costing methods that rely on faulty averages to distribute costs evenly across different products and services can lead to inaccurate and misleading product cost calculations. This is particularly problematic in industries that have unique characteristics and require specialized accounting solutions. Activity-based costing (ABC) has emerged as a groundbreaking concept in the field of cost and management accounting, fundamentally changing people's perspectives on cost analysis. Unlike volume-based cost systems, ABC provides a more precise measurement of costs by allocating overhead costs more accurately. This leads to fewer distortions and enables better performance evaluation. The implementation of ABC has also facilitated the adoption of various performance assessment tools such as Total Quality Management (TQM), activity-based management, balanced scorecards, and benchmarking. Additionally, segment reporting and the use of related costs in conjunction with the ABC

system can help identify and eliminate unprofitable product lines or departments. Implementing an ABC system often requires a concurrent shift in the management structure to ensure its effective utilization. It has become indispensable in capital-intensive manufacturing operations. However, when considering the factors that facilitate or hinder the implementation of ABC and the time required for implementation, it is important to strike a balance between the financial benefits of adopting ABC and the associated costs.

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